

**Department of Telecommunications and Energy  
First Set of Information Requests**

**THE BERKSHIRE GAS COMPANY  
D.T.E. 04-52**

**Witness:** Jennifer M. Boucher  
**Date Filed:** July 2, 2004

**Question**

**DTE 1-1:** Refer to the Company's May 14, 2004 filing ("Filing"), Attachment 6 (Customer Bill Impacts). For each rate class in which any rate component increases by more than 1.66 percent, please verify whether the rate component changes indicated in Attachment 6 accurately reflect the Company's proposed rate changes. If those increases are accurate, please provide a recalculation of each rate component to reallocate the price cap increase within the rate class, such that no rate component increases by more than 1.66 percent. See Berkshire Gas Company, D.T.E. 01-56, at 26-27, (2002).

**Response:** Attachment DTE 1-1 provides revised Compliance Filing Attachments 3 and 6. The rates have been redesigned such that no rate component increases by more than the 1.66 percent inflation factor. The total revenue increases by class have been modified slightly since the components of rates R2 and R4 are dependent upon the components of rates R1 and R3, which have been changed.

**Department of Telecommunications and Energy  
First Set of Information Requests**

**THE BERKSHIRE GAS COMPANY  
D.T.E. 04-52**

**Witness:** Jennifer M. Boucher  
**Date Filed:** July 2, 2004

**Question**

**DTE 1-2:** Refer to the Filing, Attachment 3 (PBR Rate Design). Please explain why the sum of total residential rate classes' proposed revenues, on page 4, column 9, line 14 (\$15,839,289) and total commercial and industrial rate classes' proposed revenues, on page 8, column 9, (\$7,359,282) does not equal the total Company proposed revenues on page 8, column 9, line 22 (\$27,577,740).

**Response:** Attachment 3 of the Filing has been revised and is included as Attachment DTE 1-1.

**Department of Telecommunications and Energy  
First Set of Information Requests**

**THE BERKSHIRE GAS COMPANY  
D.T.E. 04-52**

**Witness:** Jennifer M. Boucher  
**Date Filed:** July 2, 2004

**Question**

**DTE 1-3:** Refer to the Filing, at 3, ¶ 1, describing the Company's telephone system for which the Company is seeking exogenous cost recovery. Please describe the process employed by the Company in selecting the vendor for the telephone system upgrades and selecting the upgrades implemented. Please provide competing quotations and materials or brochures obtained by the Company and identify other telephone systems, if any, examined by the Company. Additionally, please provide copies or workpapers of any analyses that examined the business cases between leasing and purchasing the telephone system.

**Response:** The Company solicited information about four telephone systems based upon its business requirements, specifically to satisfy PBR reporting. The four systems reviewed by the Company were: 1) NEC 2000; 2) Intertel Axxess; 3) Nortel Meridian; and 4) Avaya Definity. Attachment DTE 1-3 provides materials describing each specific system. Based upon the overall versatility, reliability and functionality, the Company chose the Nortel Meridian system.

Berkshire selected the leasing option as a means of financing due to issues regarding compliance with debt covenant calculations with existing debt holders. The Company is required to limit the level of total debt (both long and short term) to a specified debt-equity ratio per existing note agreements. In September, 2001 Berkshire was forced to request debt compliance waivers and renegotiate terms with debt holders due to concerns with earnings coverage ratios. At this time, the Company was seeking rate relief in D.T.E. 01-56, which was granted on January 31, 2002. As a result of the inability to issue any additional long-term debt securities at that time, Berkshire chose the leasing option as a viable, least cost financing alternative to secure this necessary system upgrade.

**Department of Telecommunications and Energy  
First Set of Information Requests**

**THE BERKSHIRE GAS COMPANY  
D.T.E. 04-52**

**Witness:** Jennifer M. Boucher

**Date Filed:** July 2, 2004

**Question**

**DTE 1-4:** Refer to the Filing, Supplemental Schedule 3, at 11. Please provide invoices and other data supporting the proposed \$292,747 exogenous cost recovery for the Company's telephone system. Also, explain why the cost of "Total Nortel Networks Converged Technology Solution" is listed as \$194,050 on page 11, while the Company seeks to recover \$292,747 in exogenous costs for the system.

**Response:** The \$194,050 listed on page 11 is only one component of the total upgrade costs. The total amount of the telephone system, \$241,800, is listed on page 12 of Supplemental Schedule 3. A copy of the lease agreement with CIT and invoices are included as Attachment DTE 1-4. In the Filing, the Company seeks to recover the total amount of the lease over the remaining life of the Rate Plan. The \$292,747 from Attachment 2, at 3 is derived as follows:

CIT lease payment	\$ 4,570.36
Sales tax	<u>228.52</u>
Monthly total	\$ 4,798.88
Term of lease	<u>60</u>
Total	\$287,932.80
Interest only 11/2001 to 5/2002	<u>4,814.18</u>
Total Attachment 2, page 3 line 17	\$292,746.98

**Department of Telecommunications and Energy  
First Set of Information Requests**

**THE BERKSHIRE GAS COMPANY  
D.T.E. 04-52**

**Witness:** Jennifer M. Boucher  
**Date Filed:** July 2, 2004

**Question**

**DTE 1-5:** Refer to the Filing, Supplemental Schedule 3, at 2. Please provide all invoices for services provided by ACP Engineering that are listed on the referenced schedule.

**Response:** Please see Attachment DTE 1-5 that provides the invoices for ACP Engineering. Two line items on Supplemental Schedule 3, line numbers 38 & 39 totaling \$2,885.33 were actually Sales & Use Tax paid the Massachusetts Department of Revenue for materials invoiced by ACP Engineering.

**Department of Telecommunications and Energy  
First Set of Information Requests**

**THE BERKSHIRE GAS COMPANY  
D.T.E. 04-52**

**Witness:** Jennifer M. Boucher

**Date Filed:** July 2, 2004

**Question**

**DTE 1-6:** Refer to the Filing, at 3, ¶ 2, describing the Company's security measures for which it is seeking exogenous cost recovery of \$173,675. Please describe and provide a copy of all supplemental data on the legislative and regulatory changes (including statutory citations) that require the Company to incur \$173,675 to implement security measures.

**Response:** The Berkshire Gas Company and the natural gas industry are subject to a range of safety and operational regulations which have contributed to the industry's strong safety record. Given the public health and safety concerns associated with a reliable supply of natural gas and the greater awareness of protecting infrastructure in the aftermath of the events of September 11, 2001, Berkshire was subject to additional scrutiny and requirements associated with its operations and plant. Several of these additional requests were triggered literally within minutes or hours of the events of September 11. See Background Materials filed May 14, 2004.

For example, Berkshire received inquiries and directions from federal, state and local public safety officials with respect to enhancing the level of security throughout the Company's systems. Berkshire received inquiries and requests from the Department, the Department of Transportation and a range of state and local police agencies. These inquiries later continued through the Office of Homeland Security, a governmental authority that was created in response to the events of September 11, 2001. The substance of this message was clear, namely to enhance security to the highest levels. As a matter of policy, Berkshire Gas respects and responds promptly to security-related inquiries and requests from public officials. Berkshire responded with many actions including many that the Company advised the Department on during the course of DTE 01-56. Berkshire notes that only a portion of these activities are reflected in the request for an exogenous cost adjustment. For example, there were numerous requests and directives, some reflected in the Company's filings and others based upon meetings or telephone conversations, to heighten security. As a consequence, Berkshire added security measures such as fencing, locks and access limitations to its dispatch center and key plant components. Some of these costs are covered in the adjustment. In addition, substantial additional overtime and inspection costs were incurred in the immediate aftermath of September 11. Other cost increases, for example insurance, have likely been increased after September 11. These costs were identified and have been incurred by the Company. Importantly, the Company has not sought any recovery for these other additional costs.

In sum, the proposed adjustment reflects a range of specific security enhancement measures incurred in the aftermath of September 11 due to the specific and unique nature of the natural gas industry. Berkshire has only requested a portion of its additional costs. Berkshire believes that utilities should not have disincentives to make investments directed or promoted by regulators in the area of security. The exclusion of this adjustment might act as such a disincentive to the industry.

**Department of Telecommunications and Energy  
First Set of Information Requests**

**THE BERKSHIRE GAS COMPANY  
D.T.E. 04-52**

**Witness:** John J. Kruszyna  
**Date Filed:** July 2, 2004

**Question**

**DTE 1-7:** Is the additional depreciation deduction for certain qualified property provided by the Job Creation and Worker Assistance Act of 2002, Pub. L. No. 104-107, § 101, 16 Stat. 21, 22-25 (codified at 26 U.S.C. § 168 (k)) applicable to the Company's plant? Did the Company take such a deduction?

**Response:** Yes, the Company's utility plant in service with a tax life of twenty years or less qualified for the additional depreciation allowed by the Job Creation and Worker Assistance Act of 2002. The Company took such additional deduction in 2001 and 2002 and will be taking such deduction in calendar year 2003 when the federal return is filed in September 2004. The provision for excess depreciation allowance expires for property put in service after December 31, 2004.

**Department of Telecommunications and Energy  
First Set of Information Requests**

**THE BERKSHIRE GAS COMPANY  
D.T.E. 04-52**

**Witness:** John J. Kruszyna  
**Date Filed:** July 2, 2004

**Question**

**DTE 1-8:** Please indicate and provide all supporting data for the total tax relief that inures to the company as a result of the tax code changes of the Job Creation and Worker Assistance Act of 2002, cited in Information Request DTE 1-7 above. Please discuss whether the effect of this tax code change meets the requirements of an exogenous credit under the Company's PBR plan?

**Response:** The federal tax law change that allowed an accelerated depreciation deduction for certain qualified property provided by the Job Creation and Worker Assistance Act of 2002 merely created a temporary timing difference between book income and taxable income. Over the life of these qualified assets, the total tax depreciation taken will equal the original cost and, therefore, the Company does not inure a net tax benefit as a result of this legislative change. The tax change is similar to prior tax law depreciation changes such as the introduction of ACRS and MACRS tax depreciation methods. This revision merely modifies the timing of tax recognition of income and expenses but does not create a net tax benefit like a change to tax rates which could create a permanent net tax benefit or expense.

In order to qualify for additional first year tax depreciation deductions, eligible plant must have been placed in service between the period September 11, 2001 and September 10, 2004. Since plant is a rate base item and the Company's distribution rates only reflect rate base in service as of December 31, 2000 (the end of the test year for D.T.E. 01-56), this change in depreciation schedules should not be reflected in the Company's distribution rates nor considered an exogenous cost.

Finally, the Company notes that historically, "book" depreciation has been used as the cost component in establishing rates, and was used in the Company's past rate cases including D.T.E. 01-56. Changes in methods of calculating tax depreciation are generally not a component of developing the depreciation expense used in determining a cost of service requirement. Accordingly, for this additional reason the Company does not believe that it is appropriate to include a "tax" depreciation modification as an exogenous cost. Any change in ratemaking practices adopting this would be a substantial departure from the principles underlying the approved PCM Plan.